

AGRICULTURAL SERVICES PROGRAM

(UR-0116)

EXECUTIVE SUMMARY

BORROWER AND: Eastern Republic of Uruguay
GUARANTOR:

EXECUTING AGENCY: Ministerio de Ganadería, Agricultura y Pesca
(Ministry of Livestock, Agriculture, and Fisheries, MGAP)

AMOUNT AND SOURCE: IDB: US\$32.4 million (OC)
Local counterpart funding: US\$17.9 million
Total: US\$50.3 million

FINANCIAL Amortization period: 20 years
TERMS AND Disbursement period: 5 years
CONDITIONS: Interest rate: variable
Inspection and supervision: 1%
Credit fee: 0.75%
Currency: US\$

OBJECTIVES: The **purpose** of the agricultural services program is, by way of response to the opportunities and challenges presented by the country's increasing economic liberalization, to boost the efficiency of production in the agricultural and agroindustrial sector. Specific objectives are: (i) to increase the productivity of the factors of production on farms and in agribusiness; (ii) to raise the net income of agroindustrial companies and small and medium-sized rural producers; (iii) to meet marketing standards (health and quality) required for foreign markets which demand higher standards for animal products; and (iv) to increase access to new markets by emphasizing products that have a larger value-added component.

DESCRIPTION: In pursuit of these objectives, the program includes the following subprograms and components:

1. Subprogram for technology development and transfer (US\$22.0 million)

This subprogram will contribute to the technological transformation of the chain of agricultural production through investment in:

- a. **Strategic projects** (US\$11.85 million). This component will contribute to financing 11 projects designed to promote technological development. Priority has been assigned to these projects based on the strategic areas identified in the medium-term indicative plan (Plan Indicativo de Mediano Plazo) prepared by the National Institute of Agricultural Research (Instituto Nacional de Investigaciones Agropecuarias, or INIA). The plan analyzes trends and possible future scenarios for the agricultural, livestock, ranching, and forestry areas.
 - b. **Applied research projects** (US\$5.21 million). This component will contribute to financing adaptive research projects submitted directly by potential beneficiaries or through specialized organizations. Funds will be allocated on a competitive basis in response to demand by producers and pursuant to the program's operating regulations.
 - c. **Technology transfer** (US\$4.93 million). This component will reinforce mechanisms that articulate technology supply and demand. Funds will be allocated on a competitive basis, in response to direct demand from producers (an effort will be made to locate such demand), producer organizations, and agroindustrial companies. Three subcomponents will further the purpose: (i) technology testing; (ii) professional training; and (iii) dissemination of technologies.
2. Subprogram for animal health and food safety (US\$12.15 million)

This subprogram will reinforce the ability of the public and private sectors to ensure that animal foods and products comply, in terms of health and hygiene, with both regional standards (MERCOSUR) and international standards. The subprogram will fund the following activities:

- a. **Border protection and health barriers** (US\$860,000). This component will contribute to modernizing control systems to prevent exotic diseases that pose a threat to the country's livestock from entering the country.
- b. **Support laboratory** (US\$3.07 million). This component will make it possible for the government's laboratory to avail itself of new

analytical techniques that are needed to meet the demands of the market.

- c. **Hygiene/health controls on animal foods and products** (US\$1.55 million). This component will improve the sanitary and technical control and regulation of companies that process and market animal foods and products, and it will contribute to the gradual implementation of the HACCP (hazard analysis critical control points) system in the agroindustrial arena.
 - d. **Epidemiological surveillance of primary production, and response to exotic diseases** (US\$2.79 million). This component will support active epidemiological surveillance of the animal population so that Uruguay can attain recognition as a country free of the diseases on the A list of the Office international des épizooties (OIE), and control and eradication of diseases on the B list.
 - e. **Institutional development** (US\$3.88 million). This component will bolster the ability of the General Office of Livestock Services (Dirección General de Servicios Ganaderos, or DGSG) to respond to new animal health requirements in international markets, and to adapt food hygiene and health controls accordingly (using primarily the HACCP methodology).
3. Regional fund for agricultural technology (US\$4.5 million)

This subprogram funds the contribution Uruguay is committed to making to the Regional Fund for Agricultural Technology (FONTAGRO), which the Bank's member states created to provide support for the sector's technological development. The mechanism of contributing to the Fund through operations like this one was approved by the Bank's Board of Executive Directors on February 25, 1997 (document GN-1965, paragraph 4.3-iv).

**SOCIAL AND
ENVIRONMENTAL
REVIEW:**

The environmental review was approved by CESI. It found that the program offers good opportunities to improve the environment and preserve natural resources. The negative impact could be managed by introducing the mitigating measures and an environmental management and monitoring program. The technological packages promote conservation of natural resources, and environmental considerations will be taken into account when selecting projects in applied research and technology validation.

BENEFITS:

By supporting the agricultural sector's technological development, the program will significantly contribute to making the sector's main products more competitive. Thus it will help (i) to increase production and exports; (ii) to raise the income of agricultural producers and owners; (iii) to create jobs in the production, processing, and marketing links of the agricultural production chain; and (iv) to generate greater tax revenues and currency for the whole economy. Society at large will benefit, since the results of research are public goods and cannot be appropriated exclusively by any sector.

The main benefits of the proposed investments in animal health and food safety are: (i) maintaining Uruguay's meat exports to its principal foreign markets; (ii) reducing livestock losses due to parasites; (iii) reducing processing losses through improved health practices; (iv) improving the health standards of export products, with a consequent rise in prices; and (v) improving the hygiene/health standards of products for the domestic market.

RISKS:

1. Risks in the subprogram for technology development and transfer

The main risks here are related to: (i) insufficient demand for new technologies on the part of the agricultural and agroindustrial sector, and (ii) a lack of willingness to contribute to financing technology development and transfer. These risks are mitigated by the fact that the sector's producers and owners have shown strong interest in new technologies, which they hope will improve their efficiency and their ability to compete in MERCOSUR.

2. Risks in the subprogram for animal health and food safety

The main risk is that export firms will be slow to adopt the HACCP system or other proposed measures.

The economic importance of the country's meat exports and the interest people in the business have shown in implementing HACCP make this a minimal risk. (Five cold storage plants are already in operation).

3. Lack of inter-agency coordination

Various coordination problems could make it difficult to run the program efficiently. The proposed execution machinery and the inclusion of institutional strengthening seek to solve this problem by improving inter-agency coordination.

ROLE OF THE PROJECT IN THE BANK'S COUNTRY AND SECTOR STRATEGY:

The proposed program is compatible with the strategic approaches which the Bank and the country have agreed on. It seeks to make the agricultural sector more competitive in a time of globalization of markets and growing liberalization of the Uruguayan economy. The program has been designed to respond to the opportunities and challenges that the sector faces in moving toward full participation in MERCOSUR.

CRITERIA RELATED TO POVERTY REDUCTION AND SOCIAL POLICY:

Pursuant to the Eighth Replenishment document (AB-1704), it has been determined that the proposed program does not focus on poor sectors, either geographically or in terms of beneficiaries, and that it does not specifically address women's problems.

EXCEPTIONS TO BANK POLICY:

No exceptions to Bank policy are involved.

CONTRACTS FOR CONSULTING SERVICES, GOODS, AND WORKS:

The Bank's current policy will be followed for the procurement of good and services to be financed out of the program. Where Bank funds are used, international competitive bidding will be obligatory for procurement of US\$350,000 or more, and for consulting contracts of US\$200,000 or more. The Bank will do ex post supervision of consulting services that cost less than US\$20,000 (or the equivalent) for individual consultants or US\$50,000 (or the equivalent) for consulting firms.

SPECIAL CONTRACTUAL CONDITIONS:

1. **Preconditions for initial program disbursements:**
 - (a) evidence that the program's central coordinating unit has been set up and is functioning properly (paragraph 3.33), and
 - (b) provision of the annual operating plan (AOP) for the first year, plus an initial report on the monitoring indicators with an updating of the logical framework (Annex II-1, paragraph 3.34).
2. **Preconditions for disbursements related to the subprogram for technology development and transfer:**
 - (c) agreement on subprogram's

execution signed by MGAP and INIA (paragraph 3.35); (d) evidence that INIA's coordinating unit has been set up and is functioning properly (paragraph 3.36); and (e) subprogram's operating regulations in effect (paragraph 3.37).

3. Preconditions for disbursements related to the subprogram for animal health and food protection:

(f) evidence that the DSG's coordinating unit has been set up and is functioning properly (paragraph 3.38); (g) evidence that an international consulting firm has been chosen to study the institutional and financial impact of implementing the HACCP animal products inspection system (paragraph 3.39).

4. Other contractual conditions: (h) Ten months into the program, the second year's AOP should incorporate Bank-approved recommendations based on the above-mentioned study of the HACCP system's impact. Some disbursements related to the subprogram for animal health and food protection will be contingent on implementation of these recommendations (paragraph 3.40); (i) annual AOPs must be submitted (paragraph 3.41); (j) during the program's period of execution an annual report audited by an independent firm of public accountants and covering the performance of the applied research and technology transfer projects of the subprogram for technology development and transfer will be submitted (paragraph 3.42); and (k) also included in the loan contract will be provisions for an in-progress evaluation (paragraph 3.44), audit (paragraph 3.46), and recognition of expenditures (paragraph 3.49).